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Differences in Post-recession Performance for Auto Manufacturers and Service Industries

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. not available for any reference period
.. not available for a specific reference period
... not applicable
0 true zero or a value rounded to zero
0^s value rounded to 0 (zero) where there is a meaningful distinction between true zero and the value that was rounded
^{p} preliminary
^{r} revised
x suppressed to meet the confidentiality requirements of the *Statistics Act*
^{E} use with caution
F too unreliable to be published
* significantly different from reference category ($p < 0.05$)

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Differences in Post-recession Performance for Auto Manufacturers and Service Industries

by Elizabeth Richards, Analytical Studies Branch

This *Economic Insights* article highlights the notable differences in the extent to which different segments of the Canadian automotive sector have recovered from the 2008-2009 recession. Canadian auto manufacturers are increasingly oriented towards the U.S. market and as a result, trends in this sector can be influenced by U.S. demand, currency fluctuations and global competition. Despite stronger retail demand for new motor vehicles in the United States since the 2008-2009 recession, Canadian manufacturers reported declines, as they faced heightened competition. In comparison, auto service providers, comprising establishments involved in the wholesale and retail trade of motor vehicles and their parts, experienced notable growth in output, employment and average weekly earnings.

The tabulations presented in this report are based on data available in CANSIM on February 15, 2017.

Overview

The Canadian automotive sector is diverse, made up of establishments in various industries that manufacture parts, assemble vehicles, distribute parts or vehicles, sell new or used vehicles and are engaged in other activities (see Appendix Figure 1). The sector is part of a dynamic global automotive value chain. Some industries within the Canadian automotive sector are highly integrated in global value chains and compete with other countries for market share, while the performance of other industries is related to domestic demand. As the sector has become increasingly globalized, the output of Canada's export-oriented auto manufacturing industries has declined, as foreign competition for the U.S. market has intensified. By contrast, Canadian auto service industries, establishments involved in the wholesale and retail of motor vehicles and their parts, have experienced notable growth, reflecting strong domestic demand.

This *Economic Insights* compares the performance of automotive manufacturers and service providers since the 2008-2009 recession. The report highlights the structural declines in manufacturing, as export-oriented Canadian manufacturers have lost market share to Mexico. On account of strong post-recession growth in consumer demand for new motor vehicles in Canada, trends for the service industries have differed from those for manufacturing when comparing performance for output, employment and earnings. The paper will outline the differences in post-recession performance for these key indicators.

The paper is a complement to *Motor Vehicle Manufacturers Reposition in 2015* (Richards 2017), which provides a detailed overview of recent economic developments in motor vehicle assembly in 2015 and 2016.

Canadian manufacturers face heightened competition

The performance of Canada's auto manufacturing industries is closely related to demand in the United States and is therefore influenced by increased competition and exchange rate fluctuations. The majority of vehicles assembled in Canada are destined for foreign markets, mainly for the United States. The dependence on foreign markets has increased over the last decade, as the share of manufacturing sales exported in current dollars for motor vehicle manufacturers rose from 79.8% in 2007 to 93.0% in 2015.[1] Given the interdependency between the U.S. and Canadian markets, economic conditions, such as currency fluctuations and foreign competition, have had a substantial impact on industry trends.

Following recession declines, retail demand for autos in the United States increased substantially in the post-recession period, increasing 67.2% from the recession low to more recent levels (2009 to 2015). Despite growth in retail sales in the United States, Canadian producers faced heightened competition from Mexican manufacturers in the post-recession period. Canada's share of the U.S. market for imports of passenger cars declined

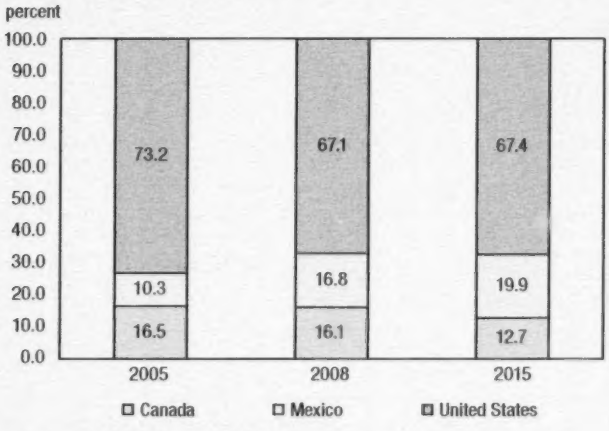
1. Note that exports of passenger cars can also include used vehicles. In 2015, the Canadian dollar weakened relative to the U.S. dollar, which led to an increase in demand for used vehicles from Canada in the United States (Owram 2016). According to data from the Canadian Vehicle Manufacturers Association (2016), which collects data on units produced by the main motor vehicle manufacturers in Canada, 90.4% of vehicles were exported in 2015 and in 2014.

from 27.4% in 2007 to 25.4% in 2015, while Mexico's share advanced from 10.1% to 14.1%.[2] The shift in market share was more pronounced for trucks, buses and special purpose vehicles, a category which includes light trucks. For this category, Canada's share decreased from 49.1% to 7.6%, while Mexico's share increased from 44.9% to 85.4%.

Similarly, the proportion of vehicles manufactured in Canada as a percentage of total North American production has declined over the last decade, while it increased in Mexico. The share of production in Mexican assembly plants expanded from 2005 to 2008, increasing from 10.3% to 16.8% in terms of the units produced, while the U.S. share fell during this period (Chart 1). In 2008, Mexico surpassed Canada as North America's second largest producer of motor vehicles. Mexico's share of North American production has continued to increase in recent years, reaching 19.9% in 2015, as Canada's share continued to decline, down from 16.1% in 2008 to 12.7% in 2015.

Gains by Mexican automakers from 2005 to 2008 coincided with a relatively strong Canadian dollar. During this period, gross fixed capital formation rose 43.5% in Mexican assembly plants.[3] Although investment declined in 2009, capital expenditures in Mexico recovered fairly quickly and surpassed pre-recession levels by 2011, continuing to increase in 2012. By contrast, capital expenditures in Canadian plants remained relatively low in comparison to pre-recession levels until capital spending increased in 2015 to support the re-tooling of existing plants.

Chart 1
Share of North American production for units of passenger cars and commercial vehicles



Note: Commercial vehicles include all trucks and buses, including light trucks, such as pickups, sport utility vehicles, and minivans.
Source: United States Department of Transportation. "Table 1-23: World Motor Vehicle Production, Selected Countries (Thousands of vehicles)".

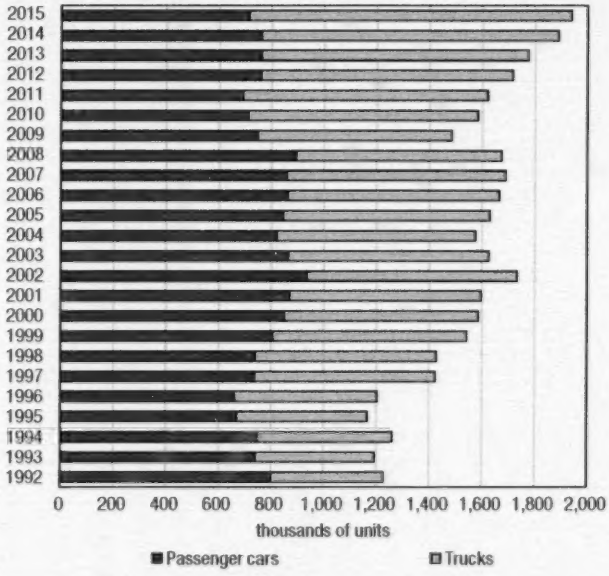
Coinciding with a shift in consumer preferences, Canadian manufacturers shifted production towards light trucks in 2015. Despite long-term declines in motor vehicles and a slow recovery from the 2008-2009 recession, output for the industry increased notably in late 2015. See Richards (2017) for a detailed analysis of recent economic developments in motor vehicles in 2015 and 2016.

Canadian new motor vehicle sales continued to surpass record levels

Domestic consumers buy a variety of new motor vehicle models, most of which are produced abroad. Wholesalers mainly import foreign-made vehicles and sell them to dealerships. In 2015, about 10% of Canadian-made vehicles were sold to wholesalers and distributed to the domestic market. Accordingly, the performance of auto manufacturers reflects Canada's competitiveness relative to other key players in global value chains, while the performance of service industries reflects domestic demand for new motor vehicles and parts.

Similar to the United States, Canada experienced notable gains in new motor vehicle sales after the 2008-2009 recession, as well as a shift in consumer preferences to light trucks. Sales of new motor vehicles fell sharply during the recession, down 11.3% in 2009 in terms of units sold (Chart 2). Sales recovered quickly and surpassed pre-recession levels by 2012. Sales continued to increase in 2013 and 2014, reaching record highs in both

Chart 2
Canadian new motor vehicle sales



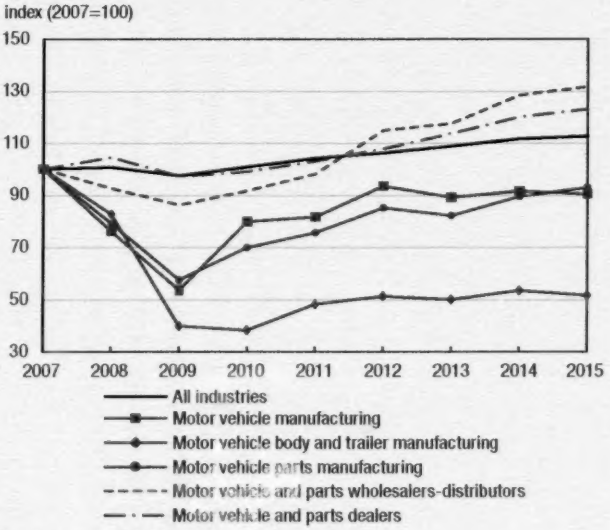
Source: Statistics Canada, CANSIM table 079-0003.

2. The analysis related to U.S. market share is conducted with data on end-use imports for passenger cars, new and used, published by the United States Census Bureau (n.d.).
3. Analysis based on data from the Organisation for Economic Co-operation and Development (OECD n.d.) on gross fixed capital formation in current dollars for Mexico, manufacture of motor vehicles, trailers and semi-trailers.

years, which exceeded the previous record high of 1.7 million units reached in 2002. Sales continued to increase in 2015, increasing in most provinces, but were partly offset by a decrease in Alberta, where recent sharp declines in oil prices dampened retail spending on autos. From 2013 to 2015, higher sales of trucks, namely light trucks, such as sport utility vehicles, were responsible for the overall increase (DesRosiers Automotive Consultants Inc. 2016*b*).

Financing conditions supported higher new motor vehicle sales in Canada, as the average auto loan term increased in the post-recession period and consumers benefited from low interest rates (Ignjatovic 2016, p. 2). These improvements in financing also supported the shift to light trucks, leading to higher average vehicle prices (Ignjatovic 2016, p. 2). In addition, consumer preferences also shifted in terms of brands before the recession. From 2000 to 2010, the share of light vehicles, which includes passenger cars and light trucks, purchased from American brands declined, while the share of vehicles from Japanese, South Korean and European brands increased, as the share of non-American light vehicles increased from 33.9% to 53.8% during this period.[4] Consumer preferences have remained focused on these brands in recent years, as their share increased to 56.0% in 2015.

Chart 3
Output for auto manufacturing and service providers, chained (2007) dollars, Canada



Source: Statistics Canada, CANSIM table 379-0031.

Growth in auto services outpaced auto manufacturing in post-recession years

The divergent trends for manufacturers and service industries is evident when comparing output for pre-recession trends to that of more recent years (Chart 3). In 2015, output for motor vehicle manufacturing was 9.5% below pre-recession levels (2007). Following a partial recovery from the recession from 2010 to 2012, the pace of the recovery slowed in subsequent years. Similarly, output for motor vehicle parts manufacturing was down 7.1% from pre-recession levels. Motor vehicle body and trailer manufacturers experienced an even sharper decrease than motor vehicle manufacturing and motor vehicle parts manufacturing, as output fell to less than half of its pre-recession level in 2009 and has remained at roughly half of its pre-recession level since 2011.

The motor vehicle parts manufacturing industry is also export-oriented and highly integrated within global value chains. In 2015, about 90% of sales for the industry were exported. As a result, performance for the industry is influenced by demand from motor vehicle manufacturing in the United States and in Canada. Although both motor vehicle manufacturing and motor vehicle parts manufacturing benefited from a weaker Canadian dollar and the shift to higher-margin light trucks (Bond 2016*a*, p. 9–10; Bond 2016*b*, pp. 9–10), output on an annual basis in 2015 remains below pre-recession levels for both industries.

By contrast, auto service industries have experienced notable growth since the 2008-2009 recession, reflecting higher demand for new motor vehicles and their parts. Following relatively smaller declines compared to auto manufacturers during the recession, output for both wholesale trade (motor vehicle and motor vehicle parts and accessories merchant wholesalers) and retail trade (motor vehicle and parts dealers) grew at a steady pace for six consecutive years. Output for wholesale trade in autos was 31.6% above pre-recession levels in more recent years, while output for retail trade was up 23.1%. Since 2011, growth in auto services has outpaced the growth for the overall economy.

The difference between the strength in auto services and the declines in auto manufacturing are supported by recent trends in international trade. Since 2007, the volume of imported passenger cars and light trucks destined for the Canadian new motor vehicle market and sold by auto dealers increased markedly, up by 43.9%. By contrast, export volumes for passenger cars and light trucks manufactured in Canada were down 7.3% from pre-recession levels. The shift from manufacturing industries and towards services for the auto sector coincides with a broader and longer-term restructuring in Canada, which began prior to the recession (Brown 2014). From 2000 to 2010, the manufacturing sectors in Ontario and Quebec experienced declines, which were offset by notable gains in a number of sectors, including wholesale and retail.

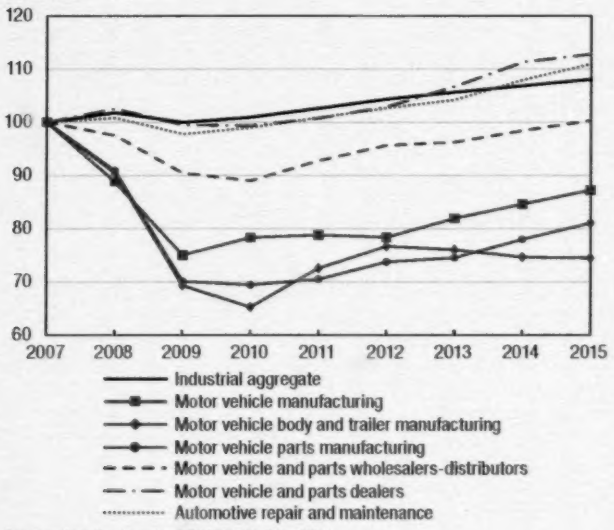
4. Data on light vehicle sales in Canada provided by DesRosiers Automotive Consultants Inc. (2016*b*). The author would like to gratefully acknowledge the contribution of Denis DesRosiers of DesRosiers Automotive Consultants Inc. (www.DesRosiers.ca) for data provided and important peer review comments provided for this article.

Employment trends diverge for auto manufacturing and service industries

In line with recent trends in output, employment has also declined from pre-recession levels in auto manufacturing and advanced for auto service industries (Chart 4). Following a relatively slow recovery from sharp recession declines from 2010 to 2012, the pace of growth for assembly plants increased in more recent years. Notwithstanding these gains, employment was down 12.8% from pre-recession levels in 2015. Declines in employment during the recession were steeper for motor vehicle parts manufacturers than for motor vehicle manufacturers, but the pace of recovery has since been fairly similar for both industries. Employment in motor vehicle parts was down 19.0% from pre-recession levels in 2015, while employment for motor vehicle body and trailer manufacturing was down 25.6%. Overall, jobs in auto manufacturing declined by over 27,000 from 2007 to 2015, with over half of the loss in motor vehicle parts.

Compared to the gains in output, employment growth has not been as strong for auto services. Employment in retail was up 12.8% from pre-recession levels. Automobile dealers were responsible for over half of the increase in employment, bolstered by higher employment in auto parts, accessories and tire stores. Despite notable gains in output for wholesale, employment grew at a slower pace subsequent to the recession and edged up 0.3% from pre-recession levels. Within wholesale, new motor vehicle parts and accessories distribution posted an increase, which was mainly offset by lower employment in motor vehicle distribution.

Chart 4
Employment for auto manufacturing, service providers and automotive repairs, Canada



Source: Statistics Canada, CANSIM table 281-0024.

Data from the Survey of Employment, Payrolls and Hours allows for an analysis of employment and average weekly earnings in the automotive repair and maintenance industry. Employment for automotive repairs rose 11.0% from 2007 to 2015 and increased at a pace similar to the economy as a whole. The Canadian automotive aftermarket, which includes automotive repairs, increased markedly in value from 2000 to 2010 and has continued to increase in recent years (DesRosiers Automotive Consultants Inc. 2016*a*). Prior to the recession, service industries and automotive repairs employed twice the number of workers than manufacturers. As a result of recent shifts, automotive services and repairs employed 376,827 persons in 2015, while manufacturers employed 125,404 persons.

Earnings for auto services rose in step with economy

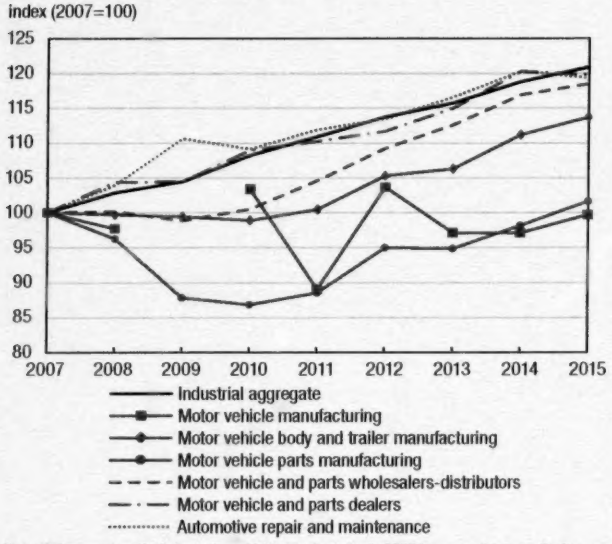
Growth in earnings for manufacturing industries have been mixed in the post-recession period, while earnings for services and automotive repairs have increased at a similar pace to that of the economy as a whole. Earnings for motor vehicle manufacturing were relatively stable during the post-recession period, edging down 0.3% from 2007 to 2015. Earnings for motor vehicle parts manufacturers increased 1.6% during the same period. Both the motor vehicle manufacturing and the motor vehicle parts industries underwent demographic changes in their workforce during the recession, as retirements for both industries increased (Statistics Canada 2016). Typically, more senior employees who are likely to retire are paid a higher wage. In addition, some companies renegotiated wages with unions during the recession in order to reduce labour costs (Bond 2009, p. 9). Earnings in the United States were also relatively stable during the post-recession period for both industries. In contrast to earnings for vehicle and vehicle parts manufacturing, earnings for motor vehicle body and trailer manufacturing increased 13.7% from 2007 to 2015.

Meanwhile, earnings for service industries and automotive repairs increased at a similar pace to the economy as a whole. Earnings for the economy as a whole increased 20.9% from pre-recession levels, while earnings for service and repair industries rose by about 19.0% during the same period.

Manufacturing declines concentrated in Ontario while service gains widespread

Although the declines in manufacturing were concentrated in Ontario, the growth in retail and automotive repairs was relatively widespread across Canada. Given that the bulk of motor vehicle manufacturing takes place in Ontario, manufacturers in the province reported the largest declines in output relative to the pre-recession period. To a lesser extent, the majority of wholesale activity for Canada occurs in Ontario and as a result, the province was responsible for the bulk of the output gains in wholesaling. However, the gains reported by retail, as well as automotive repairs were extensive, as dealers

Chart 5
Average weekly earnings for auto manufacturing, service providers and automotive repairs, Canada



Note: Data are not available for motor vehicle manufacturing in 2009 because of data quality issues.
Source: Statistics Canada, CANSIM table 281-0027.

are spread across regional markets to reach their customer base. Ontario and Quebec reported the largest gains in terms of output for both retail trade and automotive repairs. Alberta and British Columbia also contributed to the growth, as most provinces reported notable gains during the post-recession period.

Summary

There are notable differences in the extent to which different segments of the automotive sector have recovered from the 2008-2009 recession. Stronger sales of new motor vehicles in Canada in recent years were in part supported by accommodating financing conditions. Export-oriented Canadian auto manufacturers faced intensified competition from Mexican manufacturers, which led to a decrease in their share of the U.S. retail market during this period. The growth in automotive services outpaced manufacturing following the 2008-2009 recession, with stronger increases in output, employment and average weekly earnings.

On a regional basis, the decline in manufacturing was concentrated in Ontario, which was also the main contributor to growth in wholesale trade. Although Ontario and Quebec also posted the largest gains in retail trade and automotive repairs, the gains in auto services were relatively more widespread.

Appendix Figure 1
Value chain for new motor vehicles

Motor vehicle parts manufacturing (NAICS 3363)

This industry group comprises establishments primarily engaged in manufacturing motor vehicle parts, including engines. Establishments that rebuild motor vehicle parts are included in this industry group, in the same industry as the manufacture of new parts.

Motor vehicle manufacturing (NAICS 3361)

This industry group comprises establishments primarily engaged in manufacturing motor vehicles. Establishments that manufacture chassis and then assemble complete motor vehicles (including truck cab and chassis assemblies) and those that only manufacture motor vehicle chassis are both classified in this industry group.

Motor vehicle body and trailer manufacturing (NAICS 3362)

This industry group comprises establishments primarily engaged in manufacturing motor vehicle bodies and cabs, truck trailers and non-commercial trailers. The bodies and cabs may be sold as such, or assembled on purchased chassis.

Motor vehicle and motor vehicle parts and accessories merchant wholesalers (NAICS 415)

This subsector comprises establishments primarily engaged in wholesaling motor vehicles, parts and accessories, including tires.

Motor vehicle and parts dealers (NAICS 441)

This subsector comprises establishments primarily engaged in retailing motor vehicles and providing complementary services, and retailing motor vehicle parts and accessories. The establishments of this subsector are generally specialized in the retailing of particular types of vehicles or in the retailing of particular types of parts and accessories.

Automotive repair and maintenance (NAICS 8111)

This industry group comprises establishments primarily engaged in repairing and maintaining motor vehicles, such as cars, trucks, vans and commercial trailers.

Source: North American Industry Classification System (NAICS) Canada 2012.

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